



**GARLAND**  

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**INTERNAL AUDIT**

# Expense Reports

**November 18, 2019**

**Report 201903**

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## Executive Summary

IA reviewed a sample of 142 expense reports out of a population of 2,427 (refer to Exhibit A for sampling methodology) that were submitted by employees from October 1, 2016 to October 1, 2018. Testing resulted in various expense reports violating the Employee Business Expense Directive #4 (Directive). Issues included, but are not limited to, non-itemized receipts, missing registration, itineraries or other evidence of event attendance, submitting expense reports in excess of twenty business days, and paying gratuity over twenty percent. Also, some employees did not create an expense report or did not submit an expense report to the City's document management system.

IA also performed trend analyses to determine if employees were using the most economical and reasonable mode of transportation. The analysis concluded some employees did not consistently utilize the most economical or reasonable mode of transportation or stay. Additionally, an employee upgraded travel for airline seating and hotel, and did not use the City's assigned travel agent to booked air travel as required by the Directive.

Furthermore, the City's current expense report preparation and review process is manual, thus cumbersome and inefficient. The document management system, used to submit expense reports to Finance, has very limited analytic or reporting capabilities, and certain fields (such as the "amount") are not captured in the system. Consequently, expenses cannot be quantified or analyzed by management.

IA would like to express our appreciation to the management and staff of Financial Services for their time, assistance and cooperation during the course of the audit.

## Authorization

This audit was conducted under the authority of Article IV, Section 8 of the Garland City Charter. The audit was added in the FY/2019 Annual Audit Plan upon management request and approval of the Audit Committee Chairman.

## Objectives

- A. Verified if employee business expenses are appropriate, economical, authorized and in compliance with City Directives.
- B. Determined the efficiency of business expense report and review processes.

## Scope and Methodology

IA conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

conclusions based on the audit objectives. IA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The scope of this audit covered expense reports that were submitted from October 1, 2016 to October 1, 2018.

To adequately address the audit objectives and to describe the scope of the work on internal controls, IA performed the following:

- Reviewed City Directives and Standard Operating Procedures. (Obj. A & B)
- Conducted walkthroughs and interviewed personnel within Finance and other city departments to gain an understanding of the City's expense reporting process. (Obj. A & B)
- Obtained and analyzed a sample of expense reports to verify that expense reports include: (Obj. A & B)
  - Allowable and reasonable expenses
  - Adequate supporting documentation
  - Management approval
  - Timely submission to Finance
- Ran reports from the Finance and document repository systems. (Obj. A & B)
- Reviewed GSA allowance per fiscal year and evaluated whether per diem charges are calculated accurately. (Obj. A)
- Obtained a Procurement card (P-card) report and compared the charges with expense reports files to validate that expense reports are being submitted for business expenses or travel, regardless of whether or not reimbursement is required. (Obj. A)

To assess the reliability of data obtained via the City's document management systems and p-card reports, IA compared the reports to the source documents and interviewed the knowledge parties. As a result of the testing, IA determined that the data available is sufficiently reliable for the purpose of this report.

## Background

According to the Directive, "The City of Garland will bear all costs associated with an employee conducting City business both inside and outside the City limits..... It is the City's intent that while conducting City business, an employee shall incur no financial loss nor realize any financial gain."

Employees are responsible for adhering to the guidelines addressed in the Directive. This includes submitting expense reports timely (within twenty days) and providing adequate documentation and explanations to support all expenditures, whether or not a reimbursement is required.

The managing directors and their designee are ultimately responsible for reviewing the supporting documentation and approving expenses prior and after travel. After the

managing director approves and signs the expense report, the department coordinator submits it to the City's document management system.

Once the expense reports are submitted to the City's document management system, the Finance department reviews the expense reports for compliance to the City directives. If inadequate documentation or explanation is provided, then the Finance department will communicate with the department coordinator to retrieve supporting evidence. The Finance department approves the expense reports in the City's document management system and then reimburses the employee if necessary.

The City's Procurement Card (P-Card) is the preferred method of payment for all travel costs. There may be situations where an allowable travel expense cannot be paid by the City's P-Card and another form of payment (i.e. cash, personal credit card or personal check) may be used. Documented expenses will be reimbursed when an employee uses personal funds.

## Management Accomplishments\*

Beginning in January of 2019, the Finance Department is documenting all Employee Business Expense Directive violations within the Document Management System. This allows The Finance Department to have record of all prior violations and response from the department related to the violation in one central location (Prior to this date, all communication between the Department and the Finance Department was done over the phone or by email). It should be noted, that many times there is a justified reason for the violation or the violation is immaterial in nature (ex: 21% tip on meals while the Directive says no tips in excess of 20%). This process will allow management to see where material or recurring violations are occurring. In addition, The Finance Department will continue to escalate all material or recurring violations to the appropriate Managing Director or to the City Manager's Office.

In addition, funding was obtained in the FY 2019-20 Budget to purchase expense report software. Currently, the Finance and IT Departments are evaluating solutions and anticipate that the software will provide a much more streamlined and efficient process for obtaining documentation and reviewing expense reports.

\*Please note that "Management Accomplishments" are written by the audited entity and that IA did not audit or verify its accuracy.

# Opportunities for Improvement

During the audit, IA identified certain areas for improvement. The audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

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## #1 DIRECTIVE VIOLATIONS & INCONSISTENCIES (OBJ. A)

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### CONDITION (THE WAY IT IS)

IA reviewed a sample of 142 expense reports (population of 2,427) throughout the scope of the audit. Refer to Exhibit A for sampling methodology. IA also conducted various trend analyses to determine that departments were using the most economical and reasonable mode of transportation. IA identified the following directive violations or inconsistencies:

1. Forty expense reports were submitted to Finance in excess of twenty business days
  2. One expense report contained travel expenses for two employees
  3. Five employees did not create an expense report
  4. Six employees did not submit expense reports to Finance via the City's document management system
  5. In thirty-two instances, expense report documentation did not include a seminar registration, itinerary or both
  6. In nine instances, other than seminars, adequate explanation or evidence for the business trip was not provided as part of the expense report
  7. Certain employees did not utilize the most economical or reasonable mode of transportation or stay. For examples:
    - Five employees travelled (each drove separately) to San Antonio, TX for a four-day event (three nights) and booked their rooms at the River Walk (12 miles away from the event location) that was over the GSA allowance, paid for valet parking, and had gas charges. No documentation was submitted as to why this location and method of travel was chosen or necessary.
    - Another employee drove a rental car to receive an award in Richmond, VA. Flying on the airline would have been cheaper compared to driving which required additional charges from the hotel fees, rental car, gas for the rental, meals and City time. The employee's supervisor attended the same event by flying. No documentation was submitted as to why this method of travel was chosen or necessary.
  8. In twenty-one instances, expense reports contained non-itemized receipts; however, eight of these had a lost receipt form submitted.
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	<p>9. There were forty-five instances where employees exceeded General Services Administration (GSA) allowance for lodging and there was no documentation why the GSA rate was not utilized. Although the directive does not prohibit this, it does recommend taking advantage of government rates when possible.</p> <p>10. Two employees used city funds to stay overnight in the Dallas/Fort Worth metropolitan area for a training class. However, their expense report documentation did not include evidence of pre-approval for the stay from the City Manager or Managing Director.</p> <p>11. An employee upgraded travel more than once (airline upgrades three times, hotel upgrade once) and did not book travel through the City's assigned travel agent</p> <p>12. Sixteen expense reports included gratuities in excess of twenty percent</p> <p>13. The Directive prohibits golf fees; however, expense reports that included golf fees were reimbursed. Based on conversation with management, golf is a current business practice that is allowed during certain business development</p> <p>14. Certain executive level employees that receive vehicle allowance claimed mileage reimbursement</p>
<b>CRITERIA (THE WAY IT SHOULD BE)</b>	<p>According to the Directive:</p> <p>Section 1.2 Report Submission - "A completed Employee Business Expense Report form must be submitted to the Financial Services Department, whether or not a reimbursement is required, within 20 business days upon return from the trip or incurring the expense."</p> <p>Section 1.4 Signature Approval - "The Managing Director or the Managing Director's designee must obtain the City Manager's written approval on the applicable Employee Expense Report form for unusual employee business expenses before submitting it to Financial Services."</p> <p>Section 2.1 Registration - "A copy of the completed seminar registration form and the seminar itinerary must be attached to the Employee Expense Report."</p> <p>Section 2.2 Travel - "The employee may select the mode of transportation however; reimbursement will be based on the most economical mode available."</p> <p>Section 2.3 Meals - "A detailed original receipt for all purchased meals must be obtained and attached to the Employee Expense Report."</p> <p>Section 2.4 Lodging - "The City will pay for hotel accommodations through the duration of the meeting, seminar, or event. When overnight lodging is</p>



	<p>required, the employee will take advantage of government, seminar or other group rates, whenever possible.....Unless pre-approved by the City Manager or a Managing Director in writing, employees will not be reimbursed for overnight lodging expenses when traveling in the Dallas/Fort Worth Metropolitan area.”</p> <p>Section 3 Disallowed Travel Expenses - The Directive lists the following disallowed travel expenses that will not be reimbursed:</p> <ul style="list-style-type: none"> <li>• Flight or passenger insurance for airline, bus, train;</li> <li>• Any expenses attributed to family or acquaintances;</li> <li>• Premium or first class lodging, transportation and meals;</li> <li>• Preferred airline seats;</li> <li>• Transportation fares not purchased by City’s assigned Travel agent;</li> <li>• Alcoholic beverages;</li> <li>• Lodging in-room movie rentals or video games; meal service fees;</li> <li>• Valet services, with the exception of required valet parking;</li> <li>• Laundry service for stays less than 7 days;</li> <li>• Gratuities and tips in excess of 20%;</li> <li>• Fees for entertainment, admission fees, golf, museums, etc.</li> <li>• In-room mini-bar fees, housekeeping gratuities, personal grooming and toiletries</li> </ul> <p>Introductory Paragraph - “It is the City’s intent that while conducting City business, an employee shall incur no financial loss nor realize any financial gain.”</p>
<b>CAUSE (DIFFERENCE BETWEEN CONDITION &amp; CRITERIA)</b>	<ul style="list-style-type: none"> <li>• Certain managers are not thoroughly reviewing expense reports</li> <li>• Certain employees are unaware of the Directive requirements</li> <li>• The Directive is not clear regarding the documentation requirement when employees travel for business purposes other than seminars</li> <li>• The Directive is silent regarding mileage reimbursement guidelines for executive employees receiving vehicle allowance</li> </ul>
<b>EFFECT (SO WHAT?)</b>	<ul style="list-style-type: none"> <li>• Failure to verify expense reports thoroughly and timely reduces the ability to detect improprieties</li> <li>• City resources are not used properly or efficiently</li> </ul>
<b>RECOMMENDATION</b>	<p>Management should:</p> <ul style="list-style-type: none"> <li>• Ensure employees are aware of the Directive and provide sufficient training to staff</li> <li>• Review expense reports thoroughly and ensure compliance with the Directive. If exceptions are made, ensure documentation for the reasoning and City Manager’s or his designee’s approval are attached to the expense reports</li> <li>• Update the Directive to:</li> </ul>

	<ul style="list-style-type: none"> <li>▪ Address the City's documentation requirement when employees travel for business purposes other than seminars</li> <li>▪ Reflect the current practice of golf, similar to the purchase of alcohol as part of a matter involving business development</li> <li>▪ Address the City's policy regarding the mileage reimbursement for those who receive vehicle allowance</li> </ul>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	<p>The City Manager's Office will reinforce the importance of proper documentation and review of expense reports with managing directors and staff. In Addition, the Finance Department will develop additional training tools and information to assist management and employees with proper submittal of expense reports. In addition, as discussed in finding number 2, the Finance Department is exploring new expense report software that will provide management with additional analytics and auditing tools to assist with reviewing travel documentation and expenditures.</p> <p>Below is managements response to each of the audit findings:</p> <p><b>1. Expense reports in excess of 20 business days</b> – According to the IRS, it is reasonable to reimburse employees who submit documentation within 30 calendar days of the date they return from travel but no later than 60 calendar days from the date they return from travel. Management would like to amend the directive to be in line with the IRS "reasonable" date of 30 calendar days. Managing directors will be held accountable for documenting reasons why expense reports are not submitted within this timeframe. why expense reports are not submitted within this timeframe.</p> <p><b>2. Two employees on one expense report</b> – At the time of this violation, the Finance Department notified these individuals to submit separate expense reports for all future travel and they concurred. The City Manager's Office will reinforce the importance of proper documentation to employees and managing directors.</p> <p><b>3. &amp; 4. Employees not creating expense reports or not submitting them to finance</b> – All of the employees who have violated this portion of the directive have been notified to submit expense reports to the Finance Department for these travel dates. In addition, The City Manager's Office will reinforce to managing directors that all employees must submit expense reports to Finance in order to travel. The Finance Department will review departmental travel accounts periodically to identify travel that occurred without the proper expense report documentation.</p>

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**5. & 6. Documentation requirements** – Currently, the Expense Report Directive requires both a registration and itinerary for travel to seminars. However, many times the travel is for other business purposes (training, board meetings, site visits, etc.). The Directive will be updated to ensure that evidence for all business trips are documented.

**7. Utilize the most economical or reasonable mode of transportation or stay** – The City Manager’s Office will reinforce the importance of utilizing the most reasonable mode of transportation and documenting instances when other modes of transportation are necessary.

San Antonio Trip – According to the department manager, the hotel was 12 miles from the actual event. However, the hotel that the employees stayed at was across the street from the “host” hotel, which was booked for this event. In addition, while some employees did drive their personal vehicles, this particular event required multiple employees to attend with equipment and a trailer.

Richmond Trip – Management has contacted this employee and their manager regarding this trip and the employee has agreed to reimburse the City for the excess travel cost and adjust their time in the payroll system to reflect the appropriate days of work and time off.

**8. Non-Itemized Receipts** – Itemized receipts are required to ensure that prohibited or personnel expenditures are not included for reimbursement. Management understands that there are instances when an itemized receipt may be lost or cannot be obtained. In these instances, a lost receipt form needs to be filled out and signed by the managing director. The City Manager’s Office will reinforce the importance of this item with employees and managing directors.

**9. GSA / Gov. Rates for Lodging** – When traveling to a conference or seminar, employees typically stay at the hotel where the event is occurring and should book the hotel based on the “group rate” that the conference has negotiated. However, many times this rate is different from the GSA rate. In addition, “GOV” rates may be different from the GSA rate. The intent of this language is to ensure that employees and managers are taking advantage of the best lodging rate possible. The importance of this language will be reinforced with employees and managing directors. In addition, it should be noted that the Finance Department notifies management of any travel that does not appear reasonable.

**10. Overnight Stay in Dallas/Fort Worth** – City management would like to change the Directive to require overnight travel to be pre-approved by the City Manager’s Office only (not Managing Directors). Overnight travel in the DFW area should only be approved under special circumstances that require

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	<p>an employee's presence late into the evening and returning early in the morning.</p> <p><b>11. Upgraded Travel</b> – When booking travel through the city travel agent, upgraded travel is a prohibited request. However, in this instance, the employee did not utilize and was unaware of the travel agent. Management has notified this individual that this is a prohibited expenditure and that they must book airfare through the travel agent. This individual has agreed to reimburse the City for the upgraded travel charges.</p> <p><b>12. 20% gratuity</b> – Majority of these violations are related to an employee rounding the tip (ex: \$9.42 meal with \$2.00 or \$0.12% over the threshold). The Finance Department will notify departments of all violations and seek reimbursement of all tips in excess of \$1.00.</p> <p><b>13. Golf Expenditures</b> – In all instances reported, the golf expenditures were for approved business development. The directive will be updated to address the rare circumstances that this is allowable.</p> <p><b>14. Mileage Reimbursement for Executive Level Employees</b> – The policy for mileage reimbursement for executive level employees is to reimburse mileage for travel outside of the Dallas/Fort Worth metropolitan area. The intent of the car allowance is to cover the mileage and maintenance of a personal vehicle during the course of normal business. This policy will be documented in the Expense Report Directive.</p>
<b>IMPLEMENTATION DATE</b>	January 2020

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**#2 EXPENSE REPORT PROCESS (OBJ B)**

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<b>CONDITION (THE WAY IT IS)</b>	<p>The current expense report preparation and review process is cumbersome and inefficient. The preparation of the expense report is manual and uses an Excel template with many required fields as well as printing and attaching all receipts, itineraries and seminar materials. Then, management performs a manual review and approval and subsequently the department coordinator enters the report entered into the City documentation system for Finance review. Inconsistent or incorrect supporting documentation generates numerous communications with department coordinators to obtain additional information or documentation (refer to Exhibit B). This results in the untimely processing of expense reports and creates a backlog of expense report review.</p> <p>Additionally, the City's document management system, used to submit expense reports to Finance, has very limited analytic or reporting capabilities, and certain key fields (such as the "amount") available in the system are not turned on. Consequently, expenses cannot be quantified or analyzed.</p>
<b>CRITERIA (THE WAY IT SHOULD BE)</b>	<p>According to the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government Section 1, OV1.01 - "Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:</p> <ul style="list-style-type: none"><li>• Operations-Effectiveness and efficiency of operations</li><li>• Reporting-Reliability of reporting for internal and external use</li><li>• Compliance-Compliance with applicable laws and regulations"</li></ul>
<b>CAUSE (DIFFERENCE BETWEEN CONDITION &amp; CRITERIA)</b>	<ul style="list-style-type: none"><li>• The City does not have an expense report software that streamlines the process from beginning to end</li><li>• The document management system functionality is limited, and not all key fields are turned on for data entry</li></ul>
<b>EFFECT (SO WHAT?)</b>	<ul style="list-style-type: none"><li>• City resources are not used efficiently</li><li>• Inappropriateness or irregularities may not be identified timely</li><li>• Expense report trends cannot be performed</li></ul>
<b>RECOMMENDATION</b>	<p>Management should:</p> <ul style="list-style-type: none"><li>• At least add the 'Amount' field on the City's document management system in order to conduct certain analysis such as, cost per employee and department</li></ul>

	<ul style="list-style-type: none"> <li>Investigate the possibility of a new methodology to increase efficiency for the expense reports process and to conduct comprehensive data analysis.</li> </ul>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	<p>An Automated Expense Reporting Solution was approved in the IT Project Fund for Fiscal Year 2019-20. The Finance Department will be working with IT to find a software solution with the following capabilities:</p> <ol style="list-style-type: none"> <li>1) Receipt Management –capture digital receipts, read receipt data, and automatically generate line items on expense reports (Smartphone/mobile app preferred).</li> <li>2) Workflow – Solution to ensure appropriate signatures are obtained and all required documentation is included before approval.</li> <li>3) Compliance / Internal controls – Set guidelines based on expense report directive and flag exceptions for appropriate manager’s approval.</li> <li>4) Reporting and analytics – reports for management to track cost by employees and departments.</li> </ol> <p>It is anticipated that this software solution will provide a more efficient and effective way to manage and monitor expense reports.</p> <p>Currently, the document management system does not have a field for “amount”. However, Finance will work with IT to have this field created.</p>
<b>IMPLEMENTATION DATE</b>	A specific project timeline has not been developed at this time. However, this project is tentatively scheduled to be kicked off at the start of FY 2019-20. The “amount” field will be added to the Document Management System by January 1, 2020.

## Exhibit A – Sampling Methodology

IA obtained a listing of expense reports from the City's document management system. The scope of the audit is October 1, 2016 to October 1, 2018 that resulted in a population size of 2,427 expense reports. IA used a statistical sample size calculator to retrieve a sample size of 142 with a confidence level of 95% and an 8% margin of error and a random sample generator to give each item in the population an unbiased equal chance of being selected.

## Exhibit B –Finance Time Log (Oct. 16-Nov. 30, 2018)

Date	Hours	Completed	Emailed for Additional Info	Completed After Rec'd Response	Expense Reports Added	Total in Queue
16-Oct	0.5	0	0	3	9	139
17-Oct	0	0	0	0	10	149
18-Oct	0.25	0	0	1	2	150
19-Oct	0	0	0	0	0	150
22-Oct	3.75	7	1	0	5	147
23-Oct	0	0	0	0	4	151
24-Oct	0	0	0	0	6	157
25-Oct	0	0	0	0	11	168
26-Oct	0	0	0	0	4	172
29-Oct	1	1	0	0	1	172
30-Oct	0	0	0	0	6	167
31-Oct	2.5	10	2	1	3	159
1-Nov	0.5	0	1	1	9	153
2-Nov	0	0	0	0	3	156
5-Nov	5	6	2	0	8	158
6-Nov	2	2	1	2	7	157
7-Nov	0	0	0	0	1	161
8-Nov	4	3	1	1	24	182
9-Nov	1	1	0	0	21	202
12-Nov	6	4	5	3	3	201
13-Nov	4	5	2	3	10	205
14-Nov	2	3	1	0	2	209
15-Nov	3	6	0	1	14	209
16-Nov	2	2	1	0	4	212
19-Nov	0	0	0	0	3	214
20-Nov	5	26	5	3	9	193
21-Nov	4.5	15	5	0	4	181
22-Nov	THANKSGIVING					
23-Nov	THANKSGIVING					
26-Nov	5.5	11	4	6	2	171
27-Nov	1.5	0	0	4	5	170
28-Nov	1.25	1	0	3	1	166
29-Nov	0	0	1	0	3	168
30-Nov	2.5	4	4	3	2	161